

VZCZCXRO0932

RR RUEHAG RUEHAST RUEHDF RUEHHM RUEHIK RUEHLN RUEHLZ RUEHMA RUEHPB
RUEHPOD RUEHROV RUEHSR RUEHTM RUEHTRO
DE RUEHBS #0311/01 0641524
ZNR UUUUU ZZH
R 051524Z MAR 09
FM USEU BRUSSELS
TO RUEHC/SECSTATE WASHDC
INFO RUEHZN/ENVIRONMENT SCIENCE AND TECHNOLOGY COLLECTIVE
RUCNMEU/EU INTEREST COLLECTIVE
RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEHRA/AMEMBASSY RIGA
RUEHTL/AMEMBASSY TALLINN
RUEHVL/AMEMBASSY VILNIUS

UNCLAS SECTION 01 OF 03 BRUSSELS 000311

SENSITIVE
SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [ENRG](#) [EPET](#) [EUN](#)

SUBJECT: MOVING FORWARD ON BALTIC ENERGY INTERCONNECTIONS

Sensitive but Unclassified - not for Internet distribution.

USEU would like to thank Embassies Riga, Tallinn and Vilnius for their assistance in preparing this cable.

11. (SBU) Summary and Introduction. With the closing of Lithuania's Ignalina nuclear power plant scheduled for January 2009, and Russia's increasing penchant for using energy resources as a political tool, the energy security of the Baltic States has become a concern on both sides of the Atlantic. Latvia and Lithuania draw much of their electricity from Ignalina, and together with Estonia, rely on Russia for 100 percent of their gas supplies. In addition, none of the three are interconnected with European electricity grids, but rather are still connected to the Russian grid. Several energy projects, such as new nuclear power plant, electricity interconnectors, and an LNG plant have been proposed to promote regional energy security. However, while the three states realize they must cooperate to achieve this common goal, they have been unable to set-aside nationalistic impulses. The EU Commission has established a high-level group to help Estonia, Latvia, Lithuania, and their Baltic Sea neighbors to develop an Interconnector Plan to improve energy security. We should work to support this process. End summary.

REGIONAL DIFFERENCES

12. (SBU) In October 2008, European Commission President Barroso and Energy Commissioner Piebalgs agreed with the leaders of Estonia, Latvia and Lithuania, and their Baltic neighbors Denmark, Finland, Poland, and Sweden) to implement a Baltic Interconnection Plan in 2010. The object of the plan is to promote regional energy security and create a common energy market by integrating the electricity grids of the seven states, diversifying gas supplies, and increasing electricity generation. A high-level group, led by the EU's Director General for Transportation and Energy was tasked with developing the plan. USEU Econoff traveled to Riga, Vilnius, and Tallinn in February to discuss the plan and the means to promote energy security in the region.

13. (SBU) Differences amongst the three Baltic States, notably between Latvia and Lithuania, over the entry point of the Swedlink electricity interconnector, allocation of funds, and ownership interests in the Visaginas nuclear power project has hindered attempts to integrate the energy markets. The intervention of the Commission is a welcomed approach to break through the inertia, as the three governments realize a common approach is necessary to ensure progress. Lithuania's new energy minister, Arvydas Sekmokas, told Ambassador Cloud &we need to approach the EU as a region, not as individual Member States.⁸ Maija Manika of Latvia's MFA said a common approach is necessary to &neutralize old Europe's dominance of this issue,⁸ particularly insofar as

Russia is concerned. Mati Murd of Estonia's MFA said the creation of a common energy market and development of energy infrastructure should be the highest priority for the Baltic States. However, this may be difficult in the current economy, particularly for the Latvian government which must deal with significant budget shortfalls and rising unemployment.

NUCLEAR PARTNERS

14. (SBU) The Visaginas nuclear power project, intended to replace the Soviet-era Ignalina plant, exemplifies the discord. The original proposal called for a joint venture with power to be distributed to Estonia, Latvia, and Lithuania. Without consulting its northern neighbors, Lithuania offered to transmit power to Poland, which in-turn, demanded 1000 MW, approximately one-third of the prospective capacity. Further, Lithuania's Parliament mandated that Lithuania maintain a dominant share in the project. Manika said Latvia wants an equal partnership and not to be dominated by Lithuania which she added is more concerned with its image than resolution of this issue. Murd said Estonia is disappointed by the lack of progress: the inertia is not good; we've been already waiting three years. He added that while Visaginas remains a priority, Estonia is investigating the prospects for its own small-scale reactor about 500 MW. Manika noted that Poland is also looking to build its own nuclear power plants due in part to the Visaginas morass.

15. (SBU) Sekmokas said resolving the impasse on Visaginas is one of his first priorities and outlined four issues to address. (1) Secure participation in the project. He said

BRUSSELS 00000311 002 OF 003

Estonia and Latvia should definitely participate, while Sweden and Poland are possibilities due to the proposed electricity links. (2) Total capacity of the project. The waffling over participation in the project has led to uncertainty of demand. (3) Ensure that decisions are based on sound economic criteria and not political desires, and (4) determine when the plant will be operational. Marius Grinevicius, director of the Visaginas project, said political discussions have overshadowed the technological and commercial process. He believes that once the technological specifications are completed, possibly by year-end, progress will be made on an agreement. Grinevicius said the potential capacity is up to 3400 MW, but the actual capacity will depend on participation. He said the plant could be operational by 2018, and added that he is interested in American know-how to help manage the operation.

CONNECTING TO EUROPE

16. (SBU) Progress on Visaginas could also spur progress on a Poland-Lithuania electricity link. Sekmokas seeks to transmit 1000 MW from Visaginas to Poland. This would require two synchronous power lines which could link the Baltics to Europe's UCTE electricity grid. (Note: Estonia, Latvia, and Lithuania are currently connected to the Russia grid. End note.) Manika warned however that Poland's diminishing interest in Visaginas puts the link in jeopardy.

17. (SBU) Another objective for the Interconnector Plan is a connection to the Scandinavian Nordpol grid via a 1000 MW interconnector with Sweden. The project, known as Swedlink, could connect the Baltic States to Scandinavia's Nordpol grid, but like Visaginas, it is hampered by internal bickering. (Note: The Interconnector Plan seeks to link the Baltics with the UCTE and/or Nordpol grids, but they would not necessarily be removed from the Russian grid. The intention is to keep a transfer station and have access to multiple power markets in order to secure cheap power. End note.) The dispute between Lithuania and Latvia is over the point of connection for the power cables. Lithuania contends that it has the funds for the project; has conducted a feasibility study; and unlike Latvia, has high-voltage infrastructure in place at the proposed point of entry.

Publicly, Latvia maintains that its proposed link is 40 km shorter and thus more cost effective and that it has already mapped the seabed for the proposed route. In reality, it is more of a case of the &haves8 and &have nots8 with the major infrastructure projects being designated for Lithuania. Sekmokas, for his part, recognizes this problem and the need to engage Latvia. (Note: In addition to Swedlink, there is a proposal to add a second electricity connection between Finland and Estonia known as Estlink II. End note.)

DIVERSIFYING GAS SUPPLY

¶8. (SBU) The Interconnector Plan also seeks to diversify the region,s gas supply by building an LNG terminal. The ability to import LNG would lessen reliance on Russia, its sole supplier. Like Visaginas and Swedlink, the project,s viability requires regional participation, and like Visaginas and Swedlink, the proposed site is in Lithuania. (Note: The U.S. Trade and Development Agency provided Lithuania a grant in 2008 for a feasibility study on an LNG terminal. End note.) Lithuanian officials concede that Lithuania has no inherent advantages over Latvia for an LNG terminal but said that they have private investors interested, whereas Latvia does not. Both Lithuanian and Estonian officials noted that Gazprom, which is a major stakeholder in Latvijas Gaze, has no interest in promoting competition, and thus, Latvian support for an LNG terminal is lukewarm at best. Even Manika acknowledged that Latvia is not the ideal location. She said that Government of Latvia has requested a derogation of the unbundling requirements of the EU,s Third Energy Package. Thus, Latvijas Gaze (and for that matter Gazprom) will maintain a monopoly over gas transmissions until 2017.

¶9. (SBU) An alternative to an LNG terminal is to bring compressed natural gas (CNG) to Estonia. According to a representative of Lithuania,s Lietuvos Dujos gas company, CNG connectors would be less expensive than an LNG terminal, and could still benefit the region. Allan Gromov of Estonia,s Environment Ministry said this proposal is being considered by Estonian investors.

STUMBLING BLOCKS

¶10. (SBU) Officials in all three countries voiced frustration over the lack of progress. There is a consensus that success is proportional to cooperation, and Lithuanian and Estonian

BRUSSELS 00000311 003 OF 003

officials acknowledged that providing Latvia a greater share of the pie would likely yield results. One proposal mentioned in both Vilnius and Estonia is a project to expand Latvia,s gas storage capacity. This, coupled with expansion of Latvia,s transmission system would make Latvia the region,s gas hub, a role it is geographically and geologically designed for. However, a Commission official, himself a Latvian, said such a project would be tantamount to giving Gazprom money. He said additional storage is not needed. The real problem is Latvia,s inability to plan strategically. He said that when the Commission drew up a list of energy infrastructure projects for its recovery package, he proposed a project to upgrade Latvia,s energy grid in its coastal region. He said this would provide Latvia with the capacity to interconnect with Sweden and/or could pave the way for development of offshore windfarms. He also suggested biomass-fired plants which would keep money and jobs in Latvia (as opposed to Visaginas). He said neither project stirred government interest.

COMMENT

¶11. (SBU) The high-level group is scheduled to present the Interconnection Plan in July for adoption by the member states. Given the difficulties Estonia, Latvia, and Lithuania have encountered resolving these issues, it may be best to for them to continue discussions under the Commission,s mediation. Thus, we should continue our support for this process and encourage Estonia, Latvia, and Lithuania to abide by and implement the high-level group,s recommendations.

Murray

.